Lifetime Loss Ratio Assumptions

- Premium PMPM Increase: The increases assumed to occur on 1/1/11 are the average increase in premiums resulting from rate adjustments to reflect HCR benefit enhancements and the impact of assumed member selection due to the shift to unisex rating. These are equal to the incremental claims trend assumed to occur on 1/1/11 resulting from the same drivers. Annual premium increases from July 2011 through June 2014 are approximately 1% higher than the assumed medical trend to gradually move the profit level of our California individual business towards our target level. Subsequent increases are assumed to mirror medical trend.
- Incurred Claims PMPM Increase: Claims are assumed to increase by an annual medical trend assumption plus an anti-selection adjustment equal to 10% of the last annual rate increase and an underwriting wear-off adjustment. In addition, there is an increase in claims costs at 1/1/11 resulting from benefit enhancements and the move to unisex rating in California. The annual medical trend assumption is our best estimate of medical cost changes in California before accounting for the impact of changes in benefits, demographics, or underwriting wear-off.
- Assumed Underwriting Wear-Off: Underwriting wear-off is determined by calculating the weighted average duration factor at the end of each period and comparing it to the average duration factor at the end of the prior period. Duration factors are derived from Table III-3a of an SOA-Milliman study on duration in individual medical insurance (http://www.soa.org/files/pdf/IH%20Durational%20Study_Final%201006.pdf) by applying an 80% adjustment to the original slope and further smoothing the ultimate duration factor. The curve for deductibles up to $1000 is used for the projection of first dollar plans; the curve for deductibles over $1000 is used for the other two projections.
- Assumed Interest Rate: A 5% discount rate is assumed, which is our estimate of the long-term rate of return on assets in our general account portfolio.
- Credibility Adjustment: The credibility adjustment is based on the average membership during the experience period. Credibility factors are taken from the 90% confidence interval factors in the American Academy of Actuaries' May 20, 2010 letter to the NAIC (http://www.actuary.org/pdf/health/aaa_statistical_credibility_response_100520_final.pdf)

The underwriting wear-off calculation factors in duration of the membership along with assumed sales and lapse rates. It does not anticipate changes in underwriting level or movement between plans for existing members. Also note that members are only re-underwritten if they apply for coverage with richer benefits than their current plan.